Gloves

Adopting To A New Equilibrium

MARKET WEIGHT
(Maintained)

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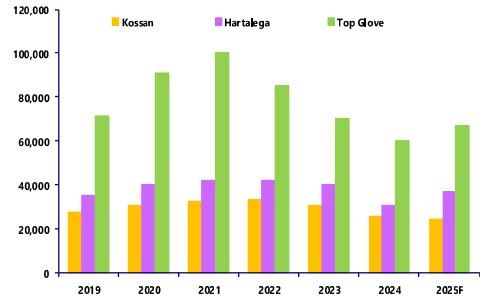
Highlights

- **Additional 100% US tariffs on China exports** from the current high base have limited incremental impacts on Malaysian glovemakers' earnings.
- **Oversupply and sub-optimal utilisation rates** are likely to continue to weigh on earnings recovery prospects.
- **Sector's risk-reward payoff appears neutral** with potential structural de-rating from China's capacity influx and aggressive expansion strategies. Maintain MARKET WEIGHT.

Analysis

- **The US raised China's tariffs by 100%, but limited impact to Malaysian glovemakers' earnings.** Last Friday, US President Donald Trump announced another 100% tariff hike on China exports effective 1 Nov 25. Including earlier tariffs, current tariffs on China medical gloves will be 180% in 2025 and 230% in 2026. Nevertheless, we assess that China's medical gloves export volume within the US market in 2Q25-3Q25 has dropped significantly since earlier reciprocal tariffs. This is mainly because ASPs are no longer competitive vs competitors even at the previous 80% tariff rate.
- **Finding grounds from China's red ocean strategy, industry oversupply remains challenging.** Given the severity of current US tariffs, China glovemakers largely reduced their exposure to the US market and re-channelled their sales to regions like Europe and Asia with more competitive price cutting strategies. This resulted in more challenging dynamics and declining profitability (lower ASPs and margins) for non-US sales. Furthermore, some China players are exploring capacity expansion in other ASEAN countries such as Indonesia, Vietnam and Thailand, adding pressure to the current oversupply dynamics.
- **Anticipating modest earnings recovery in 2H25-2026, lifted by US customers' restocking cycle.** Recall that the sector's 1H25 sales volume was on a declining trend due to US customers' earlier overstocked inventories. Nevertheless, we understand that most of these stockpiles are depleted, and US sales have normalised since July-Aug 25. Overall, we expect the sector's sales volume to improve 15-20% qoq in 2H25 off 2Q25's low base, as Malaysia's market share of US medical glove imports may grow to 65-70% (from 25-30% in 2024) following China players' exit. We pencil in assumptions of 70-75% utilisation rate and US$20-21 ASP for Malaysian glovemakers in 2H25-1H26.
- Concerns on mid- to long-term valuation de-rating linger. The sector is now trading slightly below mean valuations on our 2026 earnings forecasts. With the permanent disruption from China player's capacity influx and aggressive stance on grabbing market share which continue to weigh on investors' sentiment, we opine that sector valuations will eventually undergo a structural de-rating. Sector's risk-reward also appears neutral, with the glove companies under our coverage posing only moderate capital upside opportunities based on 2026's normalised earnings.

Malaysia Glovemakers' Effective Capacity



Source: Respective Companies, UOB Kay Hian

Sector Valuations (Pre-COVID-19)

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Share Price 13 Oct 25 (RM)	Target Price (RM)	Market Cap (US$m)	PE FY25F (x)	PE FY26F (x)	PE FY27F (x)	P/B FY25F (x)	P/B FY26F (x)	P/B FY27F (x)	2026F Div Yield (%)
Top Glove	TOPG MK	HOLD	0.705	0.70	1,337.0	70.5	24.3	17.2	1.2	1.1	1.1	2.8
Hartalega	HART MK	HOLD	1.27	1.40	1,025.3	55.2	24.9	19.8	1.1	1.0	0.9	2.5
Kossan Rubber	KRI MK	BUY	1.27	1.57	759.5	30.5	24.0	21.8	0.9	0.9	0.9	4.9

Sources: Bloomberg, UOB Kay Hian

- **Potential downside risk from severe competition in Europe.** Outside the US, we foresee more aggressive ASP competition from China manufacturers in other regions. With the loss of US sales, we reckon keen competition from China manufacturers will dampen profitability and market share for Malaysian players, besides capping ASP upside in non-US markets over a mid- to long-term horizon. The current ASP for generic nitrile gloves in non-US markets is US$16/'000 pieces, much lower than the initial US$19-20/'000 pieces.
- **China glovemakers' regional expansion and capacity influx cutting deep into the race**. Following the upward revision of US tariffs, some China players are exploring capacity expansion in other ASEAN countries such as Indonesia, Vietnam and Thailand. Note that the current US tariffs in these neighbouring gloves manufacturing countries are comparable to Malaysia: Indonesia (19%); Vietnam (20%); and Thailand (36%). We also understand that one of the new production plants in Vietnam will begin operations in Nov-Dec 25, with an initial capacity of 5b-8b pieces annually. Although such capacity is low compared with the US' annual medical gloves import of around 90b pieces, further capacity expansion in these countries may deepen the overcapacity issues and weigh on Malaysian glovemakers' profitability.
- **Some positive buffers from moderating input costs and better operational efficiency, but profitability margins yet to recover.** On a more positive note, domestic glovemakers such as Top Glove, Hartalega and Kossan have been improving their respective efficiencies through various cost rationalisation efforts such as headcounts reduction and capacity downsizing. These coupled with down-trending raw material costs (nitrile butadiene -19% ytd; latex concentrate cost -23% ytd) cushioned the negative impact from the weakening MYR/USD (-5.6% ytd), but are insufficient to lift the sector's profitability margin back to the pre-pandemic level as the current utilisation rate of 60-65% is still much lower than the optimal level of >90%.
- **Gloves stocks under our coverage offer moderate capital upside of -0.8 to 24%,** based on historical mean valuations on 2026 normalised earnings.

2025 Valuations And Implied Target Prices

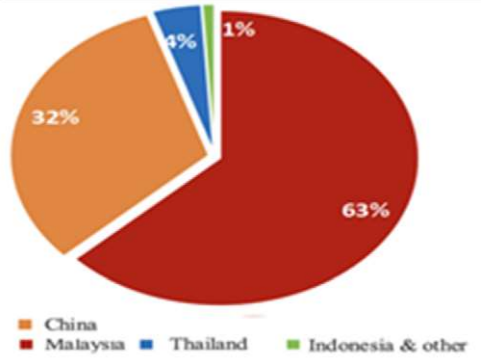
Companies	Valuations	2026F		
		EPS forecasts (sen)	Implied TP (RM)	% Upside from current share price
Hartalega	28x PE (mean)	5.0	1.40	10.2
Top Glove	24x PE (mean)	2.9	0.70	(0.8)
Kossan	18x ex-cash PE (mean)	5.3	1.57	23.6

Source: UOB Kay Hian

Valuation/Recommendation

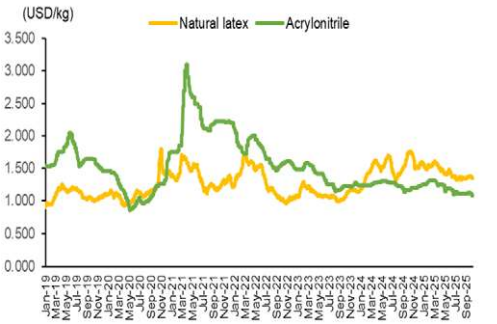
- **Maintain MARKET WEIGHT on the Malaysian glove sector.** Although downside for the sector is becoming increasingly limited, risk-reward payoff appears balanced at this juncture given the unfavourable mid- to long-term industry dynamic.
- **Maintain HOLD on Top Glove and Harta** with target prices of RM0.70 and RM1.40 respectively.
- **Our sector top pick is Kossan (BUY/Target: RM1.57)** which commands relatively discounted valuations and a huge net cash position of RM1.65b (around 65 sen/share or 52% of its current market cap).

Global Nitrile And Latex Gloves Production Capacity



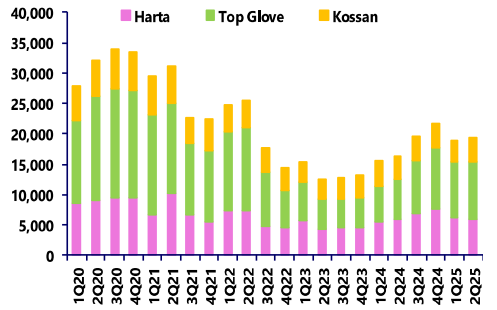
Source: OILCHEM

Raw Material Prices



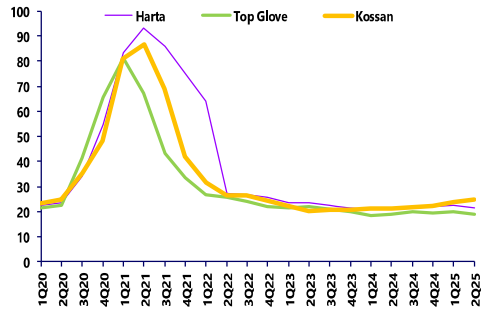
Source: Respective Companies, UOB Kay Hian

Malaysia Glovemakers' Quarterly Sales Volume (m' pieces)



Source: Respective Companies, UOB Kay Hian

Malaysia Glovemakers' Quarterly ASP (US$/'000 pieces)



Source: Respective Companies, UOB Kay Hian

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